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SIPDIS

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SUBJECT: TANZANIA: INPUT FOR 2006 PRESIDENT'S REPORT ON AGOA

REF: STATE 026707

SUMMARY

1. Since 2003, Tanzania's exports under the African Growth and Opportunity Act (AGOA) have reached a plateau at around USD 3.7 million per annum. In 2005, textiles and apparel accounted for nearly 74 percent of Tanzania's total AGOA exports. Tanzania's textile industries face several challenges including high-production costs due to unreliable power supply, rising fuel costs, and the end of third-country fabric provisions in September 2007. The remaining exports from Tanzania under AGOA are agricultural products, forestry products and handicrafts. There are several key impediments facing Tanzanian exporters trying to benefit from the opportunities offered by AGOA including logistical constraints, supply side constraints, financing constraints, compliance with phyto-sanitary requirements and lack of buyer-seller linkages with the U.S. market.

2. USAID Tanzania has focused its limited economic growth resources on technical assistance for agricultural producers of cash crops such as cashews and coffee - both eligible under General Services Preferences (GSP). The East and Central Africa (ECA) Trade Hub, which covers Tanzania, has focused its efforts primarily on the handicraft sector in Tanzania, working with four or five handicraft producers over the past three years. At least three of these handicraft firms have succeeded in exporting their products to the U.S. market. In addition to the successes in the handicraft sector, post is intent on expanding technical assistance from the ECA Trade Hub to address the key barriers confronting Tanzania's exporters. As part of this effort, post is in the planning stages for a regional AGOA workshop to address impediments to accessing the U.S. market, tentatively scheduled for late spring 2006. END SUMMARY.

Market Economy/Economic Reform/Elimination of Trade Barriers

3. -- Economic Situation: After embarking on a comprehensive economic reform program in the late 1980s, Tanzania has achieved strong macro-economic performance over the past several years with an average GDP growth rate of approximately six percent and inflation around five percent. The Government of Tanzania (GOT), in partnership with donors such as the International Monetary Fund, has made significant progress in reducing state control and regulation. Agricultural marketing has been liberalized; foreign exchange controls lifted, prices deregulated; and with the exception of major utility and infrastructure parastatals, almost all state-owned enterprises have been privatized. Emerging from its socialist past, Tanzania's nascent private sector is still weak. The economy is largely agrarian, with agricultural products accounting for 60 percent of Tanzania's exports. As a result of three consecutive years of drought and the failure of short rains in 2005, more than three and a half million Tanzanians suffer from food insecurity. Sectors in Tanzania which have grown considerably over the past several years and continue to grow quickly include tourism, mining, construction and telecommunications.

-- Trade Liberalization: In January 2005, Tanzania entered the new East African Community Customs Union, under which tariffs between Tanzania, Uganda and Kenya will be phased out over five years. The Customs Union also established a common external tariff which generally lowered Tanzania's overall tariffs, although tariffs were raised on some U.S. exports. Tanzania has taken an increasingly open stance toward foreign investment, developing a new foreign investment code and taking steps in early 2006 toward single licensing for businesses. U.S. investment in Tanzania is slowly rising, but is hindered by bureaucratic inefficiencies, corruption, and poor infrastructure, including unreliable power supply. The requirements to own land or offer it as collateral also remains an important impediment to new investment.

Political Pluralism/Rule of Law/Anti Corruption

4. -- Political Pluralism: Tanzania opened the door to multi-party democracy in 1992 and has enjoyed an unbroken string of relatively peaceful transfers of power since independence. The President, Vice President and the

Parliament of the Union Government of Tanzania are all elected officials. Tanzania held general elections for the Presidency and for all Members of Parliament in December 2005 that were considered by domestic and international observers to be generally free and fair. In October 2005, the semi-autonomous archipelago of Zanzibar which is under the United Republic of Tanzania government, held separate elections for the Zanzibar president and local officials that were marred by some voting irregularities. However, the elections for Union representatives from Zanzibar, also held in December 2005, were considered to be fair. In both the Mainland and Zanzibar elections, opposition parties were allowed to register as legal parties (18 parties on the Mainland, 6 parties in Zanzibar) and could participate in the political process.

-- Rule of Law: The law provides for an independent judiciary; however, the judiciary suffers from corruption, inefficiency, and executive influence. Criminal trials are open to the public and the press and the GOT took more steps in 2005 to address judicial inefficiency and corruption. Tanzania has improved its arbitration of commercial disputes, establishing a Commercial Court in 1999. The Court still lacks capacity and there have been a few lengthy cases of intellectual property rights and prolonged debt repayment cases involving U.S. corporations.

-- Anti-Corruption: Despite significant changes in the past decade, corruption remains a pervasive problem throughout the government and was particularly apparent during the election campaign period. Newly-elected President Kikwete has taken a strong stance against corruption and pledged to show his commitment in "deeds, not just words." The GOT participates in the World Bank Anti-Corruption Commission, and has indicted senior officials and mid-level members of the judiciary for corruption. The GOT also participates in the Millennium Challenge Threshold program (approved in January 2006) and in November 2005, became eligible for Millennium Challenge Corporation compact funds. The GOT continued to use specialized agencies to fight corruption during the year. The Good Governance Coordination Unit (GGCU) is charged with implementing anti-corruption legislation, and coordinating anti-corruption efforts; however, this three person unit is under-resourced. The Prevention of Corruption Bureau (PCB) continued to refer cases to the director of public prosecution (DPP), although prosecution of corruption cases remained slow and inefficient.

Poverty Reduction

15. Despite macro-economic stability and steady GDP growth over the past five years, inroads against poverty have been minimal. Approximately one-third of the population still lives below the World Bank's poverty line. In 2005, Tanzania completed its Poverty Reduction Strategy Paper (PRSP), known in Swahili as "Mkukuta." According to the World Bank, "Mkukuta" marked a significant achievement, reflecting widespread consultations and country ownership. The Tanzanian PRSP identifies four key areas of priority for poverty reduction: (i) education, (ii) water, (iii) roads, and (iv) energy. Tanzania remains dependent on donor-funded projects in each of these areas and dependent on foreign aid for approximately 40 percent of its budget (approximately USD 1.6 billion per year).

Human Rights/Labor/Child Labor:

16. -- Human Rights: Although a variety of human rights problems persist in Tanzania, each generally affects a few individuals or small groups as opposed to being widespread. The GOT made several significant improvements in some important areas, including demonstrating more respect for citizens' right to change their government peacefully. Government efforts helped reduce mob killings during the year, the number of newspapers, radio stations, and journalists grew, and there were no reports that police used force to disburse student demonstrations. Despite these improvements, some problems increased, such as government harassment of political opposition parties prior to the 2005 general elections, particularly on Zanzibar.

-- Labor: The GOT passed (but has not yet enacted) new labor laws in 2004 strengthening workers rights and prohibitions against child labor. The law provides for collective bargaining and workers and employers practiced it freely during the year; however, the law does not apply to the public sector. While the Trade Unions Act allows workers to form and join unions without prior authorization, in practice many private sector employers adopted anti-union policies or tactics that limited this right and there is no law to protect workers from anti-union discrimination. On Zanzibar, the law prohibits all workers from striking. On the Mainland, workers have the legal right to strike after complying with certain legal requirements. The law prohibits forced or compulsory labor, and new laws specifically prohibit forced labor by children and closed loopholes in the

constitutional ban. Although enforcement remained weak, the GOT implemented some measures including increasing the number of labor inspectors. The GOT has ratified ILO Conventions 29 and 105 on prohibitions on forced or compulsory labor.

-- Child Labor: Tanzania has ratified all eight ILO core conventions and has been a member of the ILO's International Program on the Elimination of Child Labor since 1994. Tanzania is currently participating in the ILO's "Timebound Program to Eliminate the Worst Forms of Child Labor," which seeks to eliminate child labor in targeted sectors. Since January 2002 through June 2005, over 20,000 children were prevented or withdrawn from the worst forms of child labor in mining, domestic labor, commercial agriculture and commercial sex. The minimum employment age is inconsistent with the age for completing educational requirements as the law provides for seven years of compulsory education through the age of 15. The GOT has ratified Conventions 128 and 182 on minimum age and the worst forms of child labor.

AGOA-Related Outreach

17. -- Post had an AGOA exhibit from June 30 to July 10, 2005 at the Dar es Salaam International Trade Fair which attracted more than 1,500 exhibitors from 30 countries around the world. The 2005 USA Trade Pavilion provided information on AGOA and face-to-face consultations with business representatives interested in learning more about opportunities to access the U.S. market.

-- The Southern Africa Trade Hub in Botswana sponsored Louis Accaro, Executive Secretary of the Tanzania Private Sector Foundation, to attend the U.S. sub-Saharan Africa Trade and Economic Cooperation Forum in Dakar, Senegal, July 18-20, 2005. Post sponsored Rose Swai, Economic Assistant and AGOA specialist, to attend the Forum as well.

-- The USAID Trade Hub in Nairobi sponsored the participation of four Tanzanian handicraft producers in the regional Handicraft Conference in Addis Ababa, Ethiopia in October 2005. Post also sponsored the participation of Katharine Bernsohn, Economic Officer, in order to learn more about regional AGOA success stories and the preparations necessary to host a regional AGOA conference.

-- The USAID Trade Hub in Nairobi sponsored representatives from Tengeru Flowers and Indigo Women Links to participate in the World Floral Expo in Miami, Florida in January 2006. The Nairobi hub also sponsored three handicraft producers to attend the Sources Show in Los Angeles: Edith Mushi of Kipepeo, Joyce Mbwette of Footloose and Flotea Massawe of Marvelous Batik.

-- Post is planning to sponsor a regional AGOA workshop in Dar es Salaam in late spring of 2006 to address and discuss obstacles to increasing Tanzanian exports under AGOA. While Tanzania's AGOA exports have continued to hover around USD 3.7 million for the past two years, post believes that new sectors need to be encouraged including cut roses and plant cuttings, honey, beeswax and palm oil. Also USAID Tanzania is working to further develop the processing of cashews and coffee exports, two sectors where Tanzania has shown the ability to export greater volumes to the U.S. market.

-- The Dar es Salaam regional workshop would focus on overcoming key obstacles currently facing Tanzanian producers such as lack of information and historic trading ties with the U.S. market, logistical concerns including transportation (e.g. lack of direct flights to the U.S), supply side concerns (e.g. filling a container), and compliance with phyto-sanitary standards.

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